

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Ovid-Middlebury Emergency Services Auth.</b>	County <b>Clinton/Shiawassee</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>2/10/06</b>	Date Accountant Report Submitted to State: <b>3/3/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

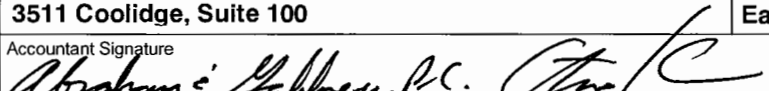
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Abraham &amp; Gaffney, P.C.</b>			
Street Address <b>3511 Coolidge, Suite 100</b>		City <b>East Lansing</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>48823</b>	Date <b>2/27/06</b>

**Ovid-Middlebury Emergency Services Authority  
Ovid, Michigan**

**FINANCIAL STATEMENTS**

**December 31, 2005**

Ovid-Middlebury Emergency Services Authority

Ovid, Michigan

December 31, 2005

AUTHORITY BOARD MEMBERS

Mr. Jim McClelland	Chair
Mr. Doug McAllister	Vice-Chair
Ms. Annette Devereaux	Treasurer
Ms. Diane Longoria	Secretary
Mr. Anthony Sinicropi	Trustee
Mr. William Lasher	Trustee
Ms. Jeanne Ott	Trustee
Mr. Charles Simpson	Trustee

Ovid-Middlebury Emergency Services Authority

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Principals

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Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**  
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Members of the  
Ovid-Middlebury Emergency Services Authority  
Ovid, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Ovid-Middlebury Emergency Services Authority as of and for the year ended December 31, 2005, which collective comprise the Authority's financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Ovid-Middlebury Emergency Services Authority as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

February 10, 2006

# Ovid-Middlebury Area Emergency Services Authority

## Management's Discussion and Analysis

The Ovid-Middlebury Emergency Services Authority, (the Authority) is in its second year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The intent of this standard is to provide citizens, taxpayers, customers, and investors with a better understanding of how the Authority's money and other assets are managed.

This discussion and analysis of financial performance provides a comparison overview of the Authority's financial activities for the fiscal years ended December 31, 2004 and 2005. Please read this document in conjunction with the Authority's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2005:

- The assets of the Authority exceeded its liabilities at the close of the most recent year by \$587,754 (net assets).
- The Authority's total net assets increased by \$32,687 as the result of current year activity.
- The Operating Fund finished the 2005 year with a decrease to fund balance of \$150,584, mainly due to a significant amount of capital outlay purchased in 2005. The ending fund balance for the 2005 year for the Operating Fund was \$42,480.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Ovid-Middlebury Area Emergency Services Authority as a whole and present a longer-term view of the Authority's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Ovid-Middlebury Area Emergency Services Authority in more detail than the government-wide financial statements by providing information about the Authority's most significant funds.

### The Authority as a Whole

The following table shows, in a condensed format, the net assets as of December 31, 2004 and 2005.

	<u>2004</u>	<u>2005</u>
<b>Assets</b>		
Current assets	\$ 450,813	\$ 308,750
Noncurrent assets	<u>479,739</u>	<u>665,354</u>
Total assets	930,552	974,104
<b>Liabilities</b>		
Current liabilities	278,976	294,068
Noncurrent liabilities	<u>96,509</u>	<u>92,282</u>
Total liabilities	<u>375,485</u>	<u>386,350</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	362,003	545,274
Unrestricted	<u>193,064</u>	<u>42,480</u>
Total net assets	<u>\$ 555,067</u>	<u>\$ 587,754</u>

## **Ovid-Middlebury Area Emergency Services Authority**

### **Management's Discussion and Analysis**

The Authority's total net assets were \$587,754 at December 31, 2005. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$42,480 at the end of the year. The net asset invested in capital assets were at \$545,274.

The following table shows the changes in net assets during the current year and previous year.

	<u>2004</u>	<u>2005</u>
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 111,717	\$ 127,587
Operating grants and contributions	33,950	24,905
General revenue:		
Property Tax	230,920	238,968
Interest revenue	1,613	6,234
Miscellaneous	<u>20,044</u>	<u>6,886</u>
Total revenue	398,244	404,580
<b>Program Expenses</b>		
Public safety	<u>358,763</u>	<u>371,893</u>
<b>Change in Net Assets</b>	<u>\$ 39,481</u>	<u>\$ 32,687</u>

#### **Governmental Activities**

The Authority's governmental revenues totaled \$404,580 with the greatest revenue sources being property taxes and charges for services. Property tax collections and charges for services make up approximately 59 and 32 percent, respectively, of total governmental revenue.

The Authority incurred expenses of \$371,893 during the year. As a special purpose government, all of the governmental expenses incurred are associated with the public safety function.

#### **The Authority's Funds**

The analysis of the Authority's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the individual funds, not the Ovid-Middlebury Area Emergency Services Authority as a whole. The Ovid-Middlebury Area Emergency Services Authority's Board of Trustees creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Authority's only major fund for the fiscal year ended December 31, 2005 was the Operating (Special Revenue) Fund.

The Operating Fund pays for all of the Authority's governmental services. The sole service provided during the fiscal year was emergency management, which incurred expenditures of approximately \$583,944 for the fiscal year.

#### **General Fund Budgetary Highlights**

Over the course of the fiscal year, the Authority Board made necessary budget adjustments to fund unanticipated expenditures during the year. The most significant amendments to the expenditure line items were to accommodate the purchase of a new fire truck and were in the capital outlay and insurance line items related to this truck purchase. Other amendments were made to the salaries/fringe benefit line items and gas and oil to more accurately reflect expected costs.

An amendment was made to the revenue budget for charges for services once a more accurate picture of the amount of revenue to be received was developed.

# **Ovid-Middlebury Area Emergency Services Authority**

## **Management's Discussion and Analysis**

### **Capital Assets and Debt Administration**

At the end of the fiscal year, the Authority had \$665,354 invested in emergency service vehicles and equipment (net of accumulated depreciation). In 2005, several pieces of emergency equipment were purchased, for a total addition to capital assets of \$225,199. More details related to the capital assets can be found in Note C.

The Authority issued one (1) additional capital lease during the year to purchase equipment amounting to \$28,780. At year-end, the Authority had remaining debt outstanding on two (2) capital leases. The outstanding principal balances on these at year-end are \$96,510, and \$23,570. The total balance of \$120,080 is the long-term debt outstanding and it is due and payable through 2009. The 2006 principal payments of \$27,798 are considered a current liability in the audited financial statements and the remaining balance of \$92,282 is considered long-term. More details related to the capital leases outstanding can be found in Note D.

### **Contacting the Authority's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Authority's finances and demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Ovid-Middlebury Emergency Service Authority Treasurer at (989) 834-5751.



## **BASIC FINANCIAL STATEMENTS**

Ovid-Middlebury Emergency Services Authority

STATEMENT OF NET ASSETS

December 31, 2005

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current	
Cash	\$ 42,562
Accounts receivable	21,950
Taxes receivable	<u>244,238</u>
Total current assets	308,750
Noncurrent	
Capital assets, net of accumulated depreciation	<u>665,354</u>
TOTAL ASSETS	974,104
<b>LIABILITIES</b>	
Current	
Accounts payable	3,247
Accrued wages	12,576
Deferred revenue	250,447
Current portion of long-term debt	<u>27,798</u>
Total current liabilities	294,068
Noncurrent	
Noncurrent portion of long-term debt	<u>92,282</u>
TOTAL LIABILITIES	<u>386,350</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	545,274
Unrestricted	<u>42,480</u>
TOTAL NET ASSETS	<u><u>\$ 587,754</u></u>

See accompanying notes to financial statements.

Ovid-Middlebury Emergency Services Authority

STATEMENT OF ACTIVITIES

Year Ended December 31, 2005

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Public safety	<u>\$ 371,893</u>	<u>\$ 127,587</u>	<u>\$ 24,905</u>	\$ (219,401)
General revenues:				
Property Taxes				238,968
Interest				6,234
Miscellaneous				<u>6,886</u>
Total general revenues				<u>252,088</u>
CHANGE IN NET ASSETS				32,687
Net assets, beginning of year				<u>555,067</u>
Net assets, end of year				<u>\$ 587,754</u>

See accompanying notes to financial statements.

Ovid-Middlebury Emergency Services Authority

GOVERNMENTAL FUND BALANCE SHEET

December 31, 2005

	Special Revenue Fund
ASSETS	
Cash	\$ 42,562
Accounts receivable	21,950
Taxes receivable	<u>244,238</u>
TOTAL ASSETS	<u>\$ 308,750</u>
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accounts payable	\$ 3,247
Accrued wages	12,576
Deferred revenue	<u>250,447</u>
TOTAL LIABILITIES	266,270
FUND EQUITY	
Fund balances	
Unreserved - undesignated	<u>42,480</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 308,750</u>

See accompanying notes to financial statements.

Ovid-Middlebury Emergency Services Authority

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

December 31, 2005

**Fund balances - governmental funds** **\$ 42,480**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 961,054	
Accumulated depreciation is	<u>(295,700)</u>	
		665,354

Long-term liabilities, are not due and payable in the current period and therefore  
are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Capital leases payable	<u>(120,080)</u>
------------------------	------------------

**Net assets of governmental activities** **\$ 587,754**

See accompanying notes to financial statements.

Ovid-Middlebury Emergency Services Authority

Governmental Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended December 31, 2005

	<u>Special Revenue</u>
REVENUES	
Intergovernmental	
Townships and Village	\$ 24,905
Taxes	238,968
Charges for services	127,587
Interest	6,234
Other	<u>6,886</u>
 TOTAL REVENUES	 404,580
EXPENDITURES	
Current	
Salaries and wages	179,186
Fringe benefits	13,693
Continuing education	1,150
Contractual services	41,817
Supplies	10,969
Gas and oil	6,284
Telephone	2,408
Insurance	31,612
Repairs and maintenance	10,830
Uniforms	9,378
Other	4,517
Capital outlay	238,117
Debt service	<u>33,983</u>
 TOTAL EXPENDITURES	 <u>583,944</u>
 EXCESS OF REVENUES (UNDER) EXPENDITURES	  (179,364)
OTHER FINANCING SOURCES	
Capital lease proceeds	<u>28,780</u>
 EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES	   (150,584)
 Fund balance, beginning of year	 <u>193,064</u>
 Fund balance, end of year	 <u><u>\$ 42,480</u></u>

See accompanying notes to financial statements.

Ovid-Middlebury Emergency Services Authority

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2005

**Net change in fund balance - governmental fund** \$ (150,584)

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$	225,199	
Depreciation expense		<u>(39,584)</u>	
Excess of capital outlay over depreciation expense			185,615

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in the governmental fund, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets.

In the current year, these amounts consist of:

Capital lease proceeds	\$	(28,780)	
Capital lease principal retirement		<u>26,436</u>	<u>(2,344)</u>

**Change in net assets of governmental activities** \$ 32,687

See accompanying notes to financial statements.

Ovid-Middlebury Emergency Services Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

**NOTE A: DESCRIPTION OF EMERGENCY SERVICES AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Ovid-Middlebury Emergency Services Authority was created on January 1, 2003 by a joint venture agreement between the Townships of Ovid and Middlebury and the Village of Ovid. Effective January 1, 2003 the Ovid-Middlebury Fire Board and the Ovid Area Ambulance Service transferred all their existing assets, liabilities, and remaining fund equity to the newly formed Ovid-Middlebury Emergency Services Authority. The Authority is considered a Municipal Emergency Service Authority as provided in the Emergency Services to Municipalities Act, 1988 PA57, MCL 124.601. The remaining formation and operating guidelines, etc. are detailed in the Authority's Articles of Incorporation and Bylaws and are maintained in the Authority's administrative offices. Each Township appoints three (3) members and the Village appoints one (1) member to the Board. The Chief oversees the day-to-day operations of the Authority.

The Authority has no stockholders and all monies received are to be used for certain specified purposes in accordance with the joint venture agreement between the constituent municipalities.

The Authority is intended to operate as much as possible from funds and income derived from operations. However, each township is responsible for remitting the portion of the emergency services property tax levy collected to the Authority. Other responsibilities including insurance coverage and procedures for termination of services are explicitly detailed in the joint venture agreement, bylaws, and articles of incorporation of the Authority.

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Ovid-Middlebury Emergency Services Authority. The Ovid-Middlebury Emergency Services Authority is considered a "joint venture" of the constituent municipalities.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Authority as a whole.

The statement of activities presents the direct functional expenses of the Authority and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes taxes, interest, and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Authority's individual major fund. Separate financial statements are provided for governmental funds and proprietary funds.

The major fund of the Authority is:

- a. The Operating (Special Revenue) Fund is used to account for all financial resources to be used for fire protection services provided to each participating municipality.



NOTES TO FINANCIAL STATEMENTS

December 31, 2005

**NOTE A: DESCRIPTION OF EMERGENCY SERVICES AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**3. Measurement Focus**

The government-wide statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**4. Basis of Accounting**

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Authority before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, charges for services, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due.

The Authority reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the Authority receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

**5. Capital Assets**

Capital assets include vehicles and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities. Capital assets are those with an initial individual cost of \$500 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

**NOTE A: DESCRIPTION OF EMERGENCY SERVICES AUTHORITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

5. Capital Assets - continued

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Vehicles	7 - 20 years
Equipment	5 - 20 years

6. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

7. Property Taxes

The participating Townships levy and collect property taxes for the Board. As the Emergency Services tax is collected it is remitted by the Township Treasurers. At March 1 each year the Townships settle their delinquent taxes with their respective County Treasurers' and the unpaid real property tax is remitted to the Board by the County Treasurer in Clinton County and by the County Treasurer in Shiawassee County. Delinquent personal property taxes are retained by the Township Treasurers for subsequent collection. The property taxes levied December 1 are accrued as current tax receivable with the appropriate deferral and are budgeted as revenue in the subsequent year. For the year ended December 31, 2005, the Township's levied for the 2004 levy 2.2020 mills, which was recognized as revenue during 2005 and 2.1861 mills for the 2005 levy which will be recognized as revenue in 2006.

8. Budgets and Budgetary Accounting

The Special Revenue (Operating) Fund budget shown in the financial statements was prepared on a basis not significantly different than the basis used to reflect actual results.

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to January 1, the budget is legally adopted on a fund level through passage of a Board resolution. After the budget is adopted all transfers of budgeted amounts between activities, or any revisions that alter the total expenditures of the fund or activity must be approved by the Board.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Board does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at December 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or amended by the Board during the year. Individual amendments were appropriately approved by the Board as required.

Ovid-Middlebury Emergency Services Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

**NOTE B: CASH**

Ovid-Middlebury Emergency Services Authority's deposits consists of a checking account, which is reported as cash in the financial statements.

In accordance with Michigan Compiled Laws, the Ovid-Middlebury Emergency Services Authority is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

**Deposits**

As of December 31, 2005, the carrying amount and bank balance are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Book Balance</u>
Checking	<u>\$ 42,562</u>	<u>\$ 49,491</u>

Deposits of the Ovid-Middlebury Emergency Services Authority are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Ovid-Middlebury Emergency Services Authority. As of December 31, 2005, the Authority's accounts were insured by the FDIC for \$49,491.

**Credit Risk**

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). The Authority has not adopted a policy that indicates how the Authority will minimize credit risk if/when the Authority has investments that are subject to this type of risk.

Ovid-Middlebury Emergency Services Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

**NOTE B: CASH - CONTINUED**

Interest rate risk

The Authority has not adopted a policy that indicates how the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time if/when the Authority has investments that are subject to this type of risk.

Concentration of credit risk

The Authority has not adopted a policy that indicates how the Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized if/when the Authority has investments that are subject to this type of risk.

Custodial credit risk

The Authority has not adopted a policy that indicates how the Authority will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments of collateral securities that are in possession of an outside party if/when the Authority has investments that are subject to this type of risk.

**NOTE C: CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2005 was as follows:

	Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2005
Governmental activities				
Capital assets not being depreciated				
Land	\$ -0-	\$ 70,183	\$ -	\$ 70,183
Capital assets being depreciated				
Equipment	174,551	30,190	-	204,741
Vehicles	<u>561,304</u>	<u>124,826</u>	<u>-</u>	<u>686,130</u>
Total capital assets being depreciated	735,855	155,016	-0-	890,871
Less accumulated depreciation for:				
Equipment	( 69,021 )	( 11,749 )	-	( 80,770 )
Vehicles	<u>( 187,095 )</u>	<u>( 27,835 )</u>	<u>-</u>	<u>( 214,930 )</u>
Total accumulated depreciation	<u>( 256,116 )</u>	<u>( 39,584 )</u>	<u>-0-</u>	<u>( 295,700 )</u>
Net capital assets being depreciated	<u>479,739</u>	<u>115,432</u>	<u>-0-</u>	<u>595,171</u>
Capital assets, net	<u>\$ 479,739</u>	<u>\$ 185,615</u>	<u>\$ -0-</u>	<u>\$ 665,354</u>

Depreciation expense was wholly allocated to the lone governmental function (public safety) in the amount of current depreciation expense of \$39,584.

Ovid-Middlebury Emergency Services Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

**NOTE D: LONG-TERM DEBT**

The following is a summary of changes in long-term debt (including current portion) of the Authority for the year ended December 31, 2005.

	<u>Balance Jan. 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2005</u>	<u>Amount due within one year</u>
Capital leases	\$ 117,736	\$ 28,780	\$ 26,436	\$ 120,080	\$ 27,798

Significant details regarding outstanding long-term debt are presented below:

Capital Lease

The Authority has entered into two (2) lease purchase agreements, which qualify as capital leases for accounting purposes and therefore have been recorded at the present value of future minimum lease payments as of the date of inception. The following are additional details regarding the leases.

The Authority has entered into a lease for the purchase of a fire truck. The cost of the truck under the lease purchase agreement amounted to \$263,493.

The Authority has entered into a lease for the purchase of equipment. The cost of the equipment under the lease purchase agreement amounted to \$28,780.

Commitments under the lease agreements provide for minimum annual payments as follows:

	<u>Fire Truck</u>	<u>Equipment</u>	<u>Total</u>
2006	\$ 27,337	\$ 6,646	\$ 33,983
2007	27,337	6,646	33,983
2008	27,337	6,646	33,983
2009	<u>27,337</u>	<u>6,646</u>	<u>33,983</u>
	109,348	26,584	135,932
Less amount representing interest	<u>( 12,838 )</u>	<u>( 3,014 )</u>	<u>( 15,852 )</u>
	<u>\$ 96,510</u>	<u>\$ 23,570</u>	<u>\$ 120,080</u>

**NOTE E: RISK MANAGEMENT**

The Authority is exposed to various risks of loss including property, liability, crime, auto and workers' compensation for which the Authority carries commercial insurance.

**NOTE F: RELATED PARTY TRANSACTIONS**

The Authority leases space from the Village of Ovid in the Ovid Municipal Building under a lease agreement dated December 15, 2004. The lease with the Village of Ovid requires a one-time payment of \$1 and is cancelable by either party given a 60 day written notice.

## **REQUIRED SUPPLEMENTARY INFORMATION**

Ovid-Middlebury Emergency Services Authority

Special Revenue Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Intergovernmental				
Townships and Village	\$ 33,000	\$ 33,000	\$ 24,905	\$ (8,095)
Taxes	240,000	240,000	238,968	(1,032)
Charges for services	100,000	110,500	127,587	17,087
Interest	500	500	6,234	5,734
Other	4,500	4,500	6,886	2,386
<b>TOTAL REVENUES</b>	<b>378,000</b>	<b>388,500</b>	<b>404,580</b>	<b>16,080</b>
<b>EXPENDITURES</b>				
Current				
Salaries and wages	168,245	179,261	179,186	75
Fringe benefits	13,629	13,713	13,693	20
Continuing education	5,000	3,710	1,150	2,560
Contractual services	50,500	45,296	41,817	3,479
Supplies	14,700	11,700	10,969	731
Gas and oil	4,000	6,800	6,284	516
Telephone	3,300	3,300	2,408	892
Insurance	20,000	32,000	31,612	388
Repairs and maintenance	16,500	11,500	10,830	670
Uniforms	10,000	10,000	9,378	622
Other	6,500	5,594	4,517	1,077
Capital outlay	20,000	210,000	238,117	(28,117)
Debt service	34,645	34,645	33,983	662
<b>TOTAL EXPENDITURES</b>	<b>367,019</b>	<b>567,519</b>	<b>583,944</b>	<b>(16,425)</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>10,981</b>	<b>(179,019)</b>	<b>(179,364)</b>	<b>(345)</b>
<b>OTHER FINANCING SOURCES</b>				
Capital lease proceeds	-	-	28,780	28,780
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</b>	<b>10,981</b>	<b>(179,019)</b>	<b>(150,584)</b>	<b>28,435</b>
Fund balance, beginning of year	193,064	193,064	193,064	-0-
Fund balance, end of year	<u>\$ 204,045</u>	<u>\$ 14,045</u>	<u>\$ 42,480</u>	<u>\$ 56,870</u>

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**  
Certified Public Accountants

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MANAGEMENT LETTER

To the members of the Ovid-Middlebury  
Emergency Services Authority  
Ovid, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of Ovid-Middlebury Emergency Services Authority for the year ended December 31, 2005. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the Authority's internal controls and our discussions with management.

1. The Authority should establish a capitalization threshold in order to track material assets purchased.

During the course of our audit, it was noted the Authority does not have a formal written capitalization threshold policy in place. This policy would set forth a dollar threshold for items purchased by the Authority, which would be considered material, long-lived assets that should be capitalized and depreciated. This issue has been noted and reported in our previous audit comments.

We suggest the Authority adopt a capitalization threshold policy.

2. The Authority should review various areas of operation and consider additional segregation of duties.

During our consideration and assessment of fraud risk, we noted that the Authority may not have sufficient segregation of duties in its accounting structure. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.).

While this is a common occurrence in small organizations due to the limited number of employees, the Authority Board should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated. This issue has been noted and reported in our previous audit comments.

We suggest that the Authority review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the Authority Board provide review and supervision of employee functions and procedures.

3. The Authority's Board of Trustees should amend the current investment policy to address the disclosure requirements of GASB Statement No. 40.

During the course of our audit it was noted that the Authority has not amended their investment policy to address the reporting requirements of GASB Statement No. 40. Effective for the year ended December 31, 2005, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Authority's ability to provide services and meet its obligations as they become due.

We suggest the Authority's Board of Trustees review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Such policies are required to be disclosed in the notes to the Authority's financial statements by GASB Statement No. 40.



These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated February 10, 2006.

This report is intended solely for the use of management and the Board of Trustees of the Ovid-Middlebury Emergency Services Authority and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

*Abraham & Gaffney, P.C.*  
ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

February 10, 2006